

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Lake Missaukee Area Fire Authority	County Missaukee
Audit Date 3/31/05	Opinion Date 11/4/05	Date Accountant Report Submitted to State: 12/6/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Baird, Cotter & Bishop, P.C.			
Street Address 134 W. Harris Street		City Cadillac	State MI
		ZIP 49601	
Accountant Signature 			Date

LAKE MISSAUKEE AREA FIRE AUTHORITY

LAKE CITY, MICHIGAN

MARCH 31, 2005

LAKE MISSAUKEE AREA FIRE AUTHORITY
LAKE CITY, MICHIGAN

MARCH 31, 2005

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CERTIFIED PUBLIC ACCOUNTANTS

November 4, 2005

INDEPENDENT AUDITORS' REPORT

To the Fire Board
Lake Missaukee Area Fire Authority
Missaukee County
Lake City, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Lake Missaukee Area Fire Authority, Missaukee County, Lake City, Michigan as of and for the year ended March 31, 2005, which collectively comprise the Fire Department's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the Fire Department's Management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Lake Missaukee Area Fire Authority, Missaukee County, Lake City, Michigan, as of March 31, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note I, the Fire Department has implemented a new financial reporting model as required by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as of April 1, 2004.

The management's discussion and analysis on pages iii through viii and budgetary comparison information on pages 16 and 17 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise Lake Missaukee Area Fire Authority, Missaukee County, Lake City, Michigan's basic financial statements. The individual fund financial statements, and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

LAKE MISSAUKEE AREA FIRE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2005

Lake Missaukee Area Fire Authority is a joint venture volunteer fire department supported by the City of Lake City and the Townships of Caldwell, Forest, Lake, Pioneer and Reeder that has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Lake Missaukee Area Fire Authority board's discussion and analysis of the financial results for the fiscal year ended March 31, 2005. In future years, comparative information will be provided.

Financial Highlights

- ◆ The assets of the Fire Department exceeded its liabilities at the close of the fiscal year by \$479,585. Of this amount, \$18,609 may be used to meet the Fire Department's ongoing obligations to citizens and creditors.
- ◆ At the end of the current fiscal year, unreserved fund balance for the General Fund was \$11,276 or 6% of total general fund expenditures. Also, the Improvement Revolving Fund had an end of year fund balance of \$7,333.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Fire Department's basic financial statements. The Fire Department's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements The government-wide financial statements, required by GASB 34, are new and being shown for the first time in 2005 for Lake Missaukee Area Fire Authority. The *government-wide financial statements* are designed to provide readers with a broad overview of the Fire Department's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Fire Department's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Fire Department's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Fire Department is improving or deteriorating.

The *Statement of Activities* presents information showing how the Fire Department's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

LAKE MISSAUKEE AREA FIRE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2005

Both of the government-wide financial statements distinguish functions of the Fire Department that are principally supported by intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Fire Department include public safety. The fire department supports no business-type activities.

Fund Financial Statements

For the most part, the fund financial statements are comparable to prior years' financial statements. The primary difference is that the Account Groups (General Fixed Assets and General Long-Term Debt) are no longer reported. The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources. All of the funds of the Fire Department are governmental funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Fire Department's financial position over time. The Net Assets of the Fire Department are \$479,585 at March 31, 2005, meaning the Fire Department's assets were greater than its liabilities by this amount.

LAKE MISSAUKEE AREA FIRE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2005

Lake Missaukee Area Fire Authority
Net Assets as of March 31, 2005

	<u>Governmental Activities</u>
Assets	
Current Assets	\$ <u>20,747</u>
Non Current Assets	
Capital Assets	1,392,818
Less: Accumulated Depreciation	<u>(831,842)</u>
Total Non Current Assets	<u>560,976</u>
Total Assets	\$ <u><u>581,723</u></u>
Liabilities	
Current Liabilities	\$ 22,376
Non Current Liabilities	<u>79,762</u>
Total Liabilities	<u>102,138</u>
Net Assets	
Invested in Capital Assets Net of Related Debt	460,976
Unrestricted	<u>18,609</u>
Total Net Assets	<u>479,585</u>
Total Liabilities and Net Assets	\$ <u><u>581,723</u></u>

The most significant portions of the Fire Department's Net Assets are cash and investment in capital assets (e.g. land, buildings and equipment), less any related debt that is outstanding that the Fire Department used to acquire or construct the asset.

At the end of the current fiscal year, the Fire Department is able to report positive balance in net assets for the government as a whole.

The following table illustrates and summarizes the results of the changes in the net assets for the Fire Department. The condensed information was derived from the government-wide Statement of Activities.

LAKE MISSAUKEE AREA FIRE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2005

**Lake Missaukee Area Fire Authority
Change in Net Assets
for the Fiscal Year Ended March 31, 2005**

	Governmental Activities
<u>Revenues</u>	
Charges for Services	\$ 21,855
General Revenues	
Contributions from Local Units	103,503
Unrestricted Investment Earnings	<u>1,015</u>
Total Revenues	126,373
<u>Expenses</u>	
Public Safety	<u>104,212</u>
Changes in Net Assets	<u>22,161</u>
NET ASSETS – Beginning of Year	<u>457,424</u>
NET ASSETS – End of Year	<u><u>\$ 479,585</u></u>

Governmental Activities

During the fiscal year ended March 31, 2005, the Fire Department's net assets increased by \$22,161 or 4.84% in the governmental funds. The majority of this increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. This is partially true due to the fact that GASB 34 now requires the Fire Department to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

The most significant part of the revenue for all governmental activities of Lake Missaukee Area Fire Authority comes from the City of Lake City and the Townships of Caldwell, Forest, Lake, Pioneer and Reeder. Each unit contributes an amount based on taxable value in each unit to support the Fire Authority. Each township levied .50 mills for fire protection. This revenue is shown as contributions from local units.

The Fire Department's governmental activities expenses are dominated by public safety expenses that total 100% of total expenses. The Fire Department spent \$104,212 in fiscal year 2005 on public safety expenses. Expenses for insurance represent a large portion of the public safety expenses at \$11,482. Depreciation expense added another \$44,695.

LAKE MISSAUKEE AREA FIRE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2005

Financial Analysis of the Government's Funds

Governmental Activities The focus of Lake Missaukee Area Fire Authority's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Fire Department's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

General Fund – At the end of the current fiscal year, Lake Missaukee Area Fire Authority's general fund reported an ending fund balance of \$11,276. All of this amount constitutes unreserved fund balance. The fund balance of the Fire Department's general fund increased by \$2,837 during the current fiscal year.

Improvement Revolving Fund – At the end of the current fiscal year, Lake Missaukee Area Fire Authority's Improvement Revolving Fund reported an ending fund balance of \$7,333. All of this amount constitutes unreserved but designated fund balance. The fund balance of the Fire Department's Improvement Revolving Fund decreased by \$53,604 during the current fiscal year.

General Fund Budgetary Highlights

During the year, individual expenditure lines were amended to agree with actual expenditures. In total, Public Safety expenditures did not change. One reason for appropriations being less than actual was due to the purchase of a new fire truck. \$100,000 of the total \$193,288 purchase price was paid out of general fund by securing a bank loan.

Capital Assets and Debt Administration

Capital Assets. The Fire Department's investment in capital assets for governmental activities as of March 31, 2005 amounted to \$560,976 net of accumulated depreciation. One large addition this year was the purchase of a fire truck for \$193,288.

Capital assets summarized below include any items purchased with a cost greater than \$3,000 individually, plus all land. A summary of capital asset categories is illustrated below:

<i>Lake Missaukee Area Fire Authority</i> <i>Capital Assets as of March 31, 2005</i>		
		Governmental Activities
Land	\$	8,680
Buildings		342,495
Equipment		1,041,643
		<hr/> 1,392,818
Less Accumulated Depreciation		<hr/> (831,842)
Net Capital Assets	\$	<hr/>560,976<hr/>

LAKE MISSAUKEE AREA FIRE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2005

Long-Term Debt. As of March 31, 2005, the Fire Department had a loan payable of \$100,000 to Chemical Bank West for the purchase of a fire truck. A prior fire truck loan was paid off during the prior fiscal year.

Economic Condition and Outlook

The Fire Department is expected to be supported by the City and Townships in the future.

A fire millage was once again levied for the 2004 tax roll. The mills to be levied for the 2005 tax roll for fire protection are expected to be similar to 2004.

These factors were considered in preparing the Fire Department's budgets for the 2005-06 fiscal year.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Fire Department's finances and to demonstrate the Fire Department's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Lake Missaukee Area Fire Authority at P.O. Box 803, Lake City, MI 49651.

LAKE MISSAUKEE AREA FIRE AUTHORITY
LAKE CITY, MICHIGAN

STATEMENT OF NET ASSETS
MARCH 31, 2005

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 15,747
Accounts Receivable	5,000
	<hr/>
Total Current Assets	\$ 20,747
	<hr/>
<u>CAPITAL ASSETS</u>	
Land	\$ 8,680
Buildings	342,495
Equipment	1,041,643
	<hr/>
	\$ 1,392,818
Less Accumulated Depreciation	(831,842)
	<hr/>
Total Capital Assets	\$ 560,976
	<hr/>
TOTAL ASSETS	\$ 581,723
	<hr/> <hr/>
<u>LIABILITIES AND NET ASSETS</u>	
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	\$ 1,230
Payroll Liabilities	908
Current Portion of Non Current Liabilities	20,238
	<hr/>
Total Current Liabilities	\$ 22,376
	<hr/>
<u>NON CURRENT LIABILITIES</u>	
Loan Payable	\$ 100,000
Less Current Portion of Non Current Liabilities	(20,238)
	<hr/>
Total Non Current Liabilities	\$ 79,762
	<hr/>
Total Liabilities	\$ 102,138
	<hr/>
<u>NET ASSETS</u>	
Invested in Capital Assets Net of Related Debt	\$ 460,976
Unrestricted	18,609
	<hr/>
Total Net Assets	\$ 479,585
	<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$ 581,723
	<hr/> <hr/>

The accompanying notes are an integral part of the financial statements.

LAKE MISSAUKEE AREA FIRE AUTHORITY
LAKE CITY, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2005

					NET (EXPENSE) REVENUES AND CHANGES IN NET ASSETS
FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		TOTALS	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS		
			CAPITAL GRANTS AND CONTRIBUTIONS		
<u>PRIMARY GOVERNMENT</u>					
<u>GOVERNMENTAL ACTIVITIES</u>					
Public Safety	\$ 104,212	\$ 21,855	\$ 0	\$ (82,357)	
<u>GENERAL REVENUES</u>					
	Contributions from Local Units			\$ 103,503	
	Unrestricted Investment Earnings			1,015	
	Total General Revenues			\$ 104,518	
	Change in Net Assets			\$ 22,161	
	<u>NET ASSETS</u> - Beginning of Year			457,424	
	<u>NET ASSETS</u> - End of Year			\$ 479,585	

The accompanying notes are an integral part of the financial statements.

LAKE MISSAUKEE AREA FIRE AUTHORITY
LAKE CITY, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET
MARCH 31, 2005

	GENERAL FUND	IMPROVEMENT REVOLVING FUND	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>			
Cash	\$ 8,414	\$ 7,333	\$ 15,747
Accounts Receivable	5,000	0	5,000
<hr/>			
TOTAL ASSETS	\$ 13,414	\$ 7,333	\$ 20,747
<hr/>			
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts Payable	\$ 1,230	\$ 0	\$ 1,230
Payroll Liabilities	908	0	908
<hr/>			
Total Liabilities	\$ 2,138	\$ 0	\$ 2,138
<hr/>			
<u>FUND BALANCES</u>			
Designated for Fire Authority Improvements	\$ 0	\$ 7,333	\$ 7,333
Undesignated	11,276	0	11,276
<hr/>			
Total Fund Balances	\$ 11,276	\$ 7,333	\$ 18,609
<hr/>			
TOTAL LIABILITIES AND FUND BALANCES	\$ 13,414	\$ 7,333	\$ 20,747

The accompanying notes are an integral part of the financial statements.

LAKE MISSAUKEE AREA FIRE AUTHORITY
LAKE CITY, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
MARCH 31, 2005

Total Fund Balance for Governmental Funds	\$	18,609
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Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the funds.

Land	\$	8,680	
Buildings		342,495	
Equipment		1,041,643	
Accumulated Depreciation		<u>(831,842)</u>	560,976

Long term liabilities are not due and payable in the current period and
are not reported in the fund.

Bank Loan - Fire Truck		<u>(100,000)</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>479,585</u></u>
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The accompanying notes are an integral part of the financial statements.

LAKE MISSAUKEE AREA FIRE AUTHORITY
LAKE CITY, MICHIGAN

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

YEAR ENDED MARCH 31, 2005

	GENERAL FUND	IMPROVEMENT REVOLVING FUND	TOTAL GOVERNMENTAL FUNDS
<u>REVENUES</u>			
Local Sources			
Contributions from Local Units	\$ 103,503	\$ 0	\$ 103,503
Charges for Services	21,855	0	21,855
Interest and Rents	70	945	1,015
	<hr/>		
Total Revenues	\$ 125,428	\$ 945	\$ 126,373
<u>EXPENDITURES</u>			
Public Safety	183,852	93,288	277,140
	<hr/>		
Excess of Revenues Over (Under) Expenditures	\$ (58,424)	\$ (92,343)	\$ (150,767)
<u>OTHER FINANCING SOURCES (USES)</u>			
Proceeds from Debt Issuance	\$ 100,000	\$ 0	\$ 100,000
Transfer In	0	38,739	38,739
Transfer Out	(38,739)	0	(38,739)
	<hr/>		
Total Other Financing Sources (Uses)	\$ 61,261	\$ 38,739	\$ 100,000
	<hr/>		
Net Change in Fund Balance	\$ 2,837	\$ (53,604)	\$ (50,767)
<u>FUND BALANCES</u> - Beginning of Year	8,439	60,937	69,376
	<hr/>		
<u>FUND BALANCES</u> - End of Year	\$ 11,276	\$ 7,333	\$ 18,609
	<hr/> <hr/>		

The accompanying notes are an integral part of the financial statements.

LAKE MISSAUKEE AREA FIRE AUTHORITY
LAKE CITY, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
MARCH 31, 2005

Net change in Fund Balances Total Governmental Funds	\$ (50,767)
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(44,695)
Capital Outlay	217,623

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.

Loan Proceeds	<u>(100,000)</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 22,161</u></u>
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The accompanying notes are an integral part of the financial statements.

LAKE MISSAUKEE AREA FIRE AUTHORITY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Lake Missaukee Area Fire Authority is a joint venture volunteer fire authority supported by the City of Lake City and the Townships of Caldwell, Forest, Lake, Pioneer and Reeder. Under the criteria established by accounting principles generally accepted in the United States of America, the Fire Authority has determined that there are no component units which should be included in its reporting entity.

B. Government-wide and Fund Financial Statements

During fiscal year 2005, the Fire Authority adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets are often designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be modified or removed.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a

LAKE MISSAUKEE AREA FIRE AUTHORITY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Contributions from local units and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Fire Authority as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, are recorded only when payment is due.

Contributions from local units and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Fire Authority are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-

LAKE MISSAUKEE AREA FIRE AUTHORITY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Lake Missaukee Area Fire Authority reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Improvement Revolving Fund is used to account for the accumulation of funds for the purchase of capital improvements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues.

When both restricted and unrestricted resources are available for use, it is the Fire Authority's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Fire Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

- I. The Fire Authority Board is limited to investments authorized by PA 20 of 1943 and has authorized the Fire Authority Treasurer to invest funds as follows:
 - a. In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
 - b. In certificates of deposit, savings accounts, deposit accounts, or depository of a financial institution. Authorized depositories shall be designated by the Lake Missaukee Area Fire Authority Board at the Board's organizational meeting after each regular election of board members.

LAKE MISSAUKEE AREA FIRE AUTHORITY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

- c. In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. In repurchase agreements consisting of instruments listed in subdivision (a).
- e. In bankers' acceptances of United States banks.
- f. In investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- g. In investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 129.111 to 129.118.

2. *Receivables and Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between governmental activities are reported in the government-wide financial statements as "internal balances."

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All receivables are shown net of an allowance for uncollectibles. Fire Authority revenues are recognized when they become both measurable and available for use to finance Fire Authority operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

For the 2004 – 2005 fiscal year, the Lake Missaukee Area Fire Authority received as aid \$15,072 from the City of Lake City, \$14,412 from Caldwell Township, \$52,978 from Lake Township, \$9,349 from Forest Township, \$9,289 from Reeder Township, and \$2,303 from Pioneer Township. In addition, the Fire Authority received \$100 in private contributions.

3. *Inventories and Prepaid Items*

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

LAKE MISSAUKEE AREA FIRE AUTHORITY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

4. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$3,000 (amount not rounded) and an estimated useful life in excess of one year plus all land. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Land improvements	20
Vehicles	10
Equipment	5-10

5. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

6. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

LAKE MISSAUKEE AREA FIRE AUTHORITY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budgeted amounts presented are as originally adopted on January 13, 2004, or as amended by the Fire Authority Board from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Fire Authority Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Fire Authority because it is not, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

B. Excess of Expenditures Over Appropriations

For the year ended March 31, 2005, expenditures exceeded appropriations in the General Fund by \$89,169. This over expenditure was funded by greater than anticipated revenues and proceeds from debt issuance.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits and Investments

The Fire Authority's deposits at year-end were entirely covered by federal depository insurance. All deposits are in Chemical Bank West and Fifth Third Bank, Lake City, Michigan. At year-end, the carrying amount of the Fire Authority's deposits was \$15,747, and the bank balance was \$25,376.

The carrying amount of the Fire Authority's deposits at year-end are shown below:

	<u>GENERAL FUND</u>
Money Market Account	
Chemical Bank West	
Lake City, Michigan	\$ 8,414
Certificate of Deposit	
Fifth Third Bank	
Lake City, Michigan	<u>7,333</u>
	<u>\$ 15,747</u>

LAKE MISSAUKEE AREA FIRE AUTHORITY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

A reconciliation of cash and investments follows:

	<u>PRIMARY GOVERNMENT</u>
Carrying amount of deposits	\$ <u>15,747</u>
Government-wide statement of net assets	
Cash	\$ <u>15,747</u>

B. Receivables

At year end, the Fire Authority had accounts receivable for fire runs in the amount of \$5,000.

C. Capital Assets

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated				
Land	\$ 8,680	\$ 0	\$ 0	\$ 8,680
Capital assets, being depreciated				
Buildings	342,495	0	0	342,495
Equipment	824,020	217,623	0	1,041,643
Total capital assets, being depreciated	1,166,515	217,623	0	1,384,138
Less accumulated depreciation for:				
Buildings	103,220	17,125	0	120,345
Equipment	683,927	27,570	0	711,497
Total accumulated depreciation	787,147	44,695	0	831,842
Total capital assets, being depreciated, net	379,368	172,928	0	552,296
Governmental activities capital assets, net	\$ 388,048	\$ 172,928	0	\$ 560,976

LAKE MISSAUKEE AREA FIRE AUTHORITY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
Public Safety	\$ <u>44,695</u>

Construction Commitments:

The government has no outstanding construction commitments as of March 31, 2005.

D. Long-Term Debt

During the year, the Fire Authority obtained a bank loan for the purchase of a new fire truck. The balance at March 31, 2005 was \$100,000 with an interest rate of 3.49%.

A summary of the Long-Term Debt transactions for the Fire Authority for the year ended March 31, 2005 is as follows:

Long-Term Debt at April 1, 2004	\$ 0
New Liabilities	100,000
Liabilities Classified as Current	<u>(20,238)</u>
 Long-Term Debt at March 31, 2005	 \$ <u>79,762</u>

The annual requirements to amortize all long-term debt outstanding as of March 31, 2005 including interest payments of \$8,555 are as follows:

YEAR ENDING MARCH 31	PRINCIPAL	INTEREST	TOTAL
2006	\$ 20,238	\$ 1,473	\$ 21,711
2007	18,927	2,784	21,711
2008	19,588	2,123	21,711
2009	20,268	1,443	21,711
2010	<u>20,979</u>	<u>732</u>	<u>21,711</u>
	 \$ 100,000	 \$ 8,555	 \$ <u>108,555</u>

LAKE MISSAUKEE AREA FIRE AUTHORITY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

IV. OTHER INFORMATION

A. Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; natural disasters, and worker's compensation claims. The government carries commercial insurance to guard against loss from these risks.

LAKE MISSAUKEE AREA FIRE AUTHORITY
LAKE CITY, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED MARCH 31, 2005

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
<u>REVENUES</u>				
Contributions from Local Units	\$ 70,683	\$ 70,683	\$ 103,503	\$ 32,820
Charges for Services	24,000	24,000	21,855	(2,145)
Interest and Rents	0	0	70	70
Total Revenues	\$ 94,683	\$ 94,683	\$ 125,428	\$ 30,745
<u>EXPENDITURES</u>				
Public Safety	94,683	94,683	183,852	(89,169)
Excess of Revenues Over (Under) Expenditures	\$ 0	\$ 0	\$ (58,424)	\$ (58,424)
<u>OTHER FINANCING SOURCES (USES)</u>				
Proceeds from Debt Issuance	\$ 0	\$ 0	\$ 100,000	\$ 100,000
Transfer Out	0	0	(38,739)	(38,739)
Total Other Financing Sources (Uses)	\$ 0	\$ 0	\$ 61,261	\$ 61,261
Net Change in Fund Balance	\$ 0	\$ 0	\$ 2,837	\$ 2,837
<u>FUND BALANCE</u> - Beginning of Year	0	0	8,439	8,439
<u>FUND BALANCE</u> - End of Year	\$ 0	\$ 0	\$ 11,276	\$ 11,276

LAKE MISSAUKEE AREA FIRE AUTHORITY
LAKE CITY, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
IMPROVEMENT REVOLVING FUND

YEAR ENDED MARCH 31, 2005

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
<u>REVENUES</u>				
Interest and Rents	\$ 1,890	\$ 1,890	\$ 945	\$ (945)
<u>EXPENDITURES</u>				
Public Safety	93,288	93,288	93,288	0
Excess of Revenues Over (Under) Expenditures	\$ (91,398)	\$ (91,398)	\$ (92,343)	\$ (945)
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfer In	38,739	38,739	38,739	0
Net Change in Fund Balance	\$ (52,659)	\$ (52,659)	\$ (53,604)	\$ (945)
<u>FUND BALANCE</u> - Beginning of Year	60,937	60,937	60,937	0
<u>FUND BALANCE</u> - End of Year	\$ 8,278	\$ 8,278	\$ 7,333	\$ (945)

LAKE MISSAUKEE AREA FIRE AUTHORITY
LAKE CITY, MICHIGAN

GENERAL FUND

BALANCE SHEET
MARCH 31, 2005

ASSETS

Cash	
Money Market Account	\$ 8,414
Accounts Receivable	<u>5,000</u>
 TOTAL ASSETS	 <u><u>\$ 13,414</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ 1,230
Payroll Liabilities	<u>908</u>
 Total Liabilities	 \$ 2,138

FUND BALANCE

Unreserved	<u>11,276</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u><u>\$ 13,414</u></u>

LAKE MISSAUKEE AREA FIRE AUTHORITY
LAKE CITY, MICHIGAN

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED MARCH 31, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>		
Local Sources		
Contributions from Local Units	\$ 70,683	\$ 103,503
Charges for Services		
Fire Runs	24,000	21,855
Interest and Rents		
Interest Earnings	0	70
	<hr/>	<hr/>
Total Revenues	\$ 94,683	\$ 125,428
	<hr/>	<hr/>
<u>EXPENDITURES</u>		
Public Safety		
Personal Services		
Salaries and Wages	\$ 15,000	\$ 16,309
Supplies		
Office and Computer Supplies	1,125	1,123
Operating Supplies		
Gas and Oil	1,782	1,782
Maintenance Supplies	550	405
Uniforms	365	0
Turnout Gear	4,500	3,898
Other Services and Charges		
Utilities and Telephone	5,318	4,788
Training	1,125	594
Repair and Maintenance		
Equipment	2,000	1,212
Building	2,000	1,434
Radio	2,252	2,251
Apparatus	5,066	3,548
Audit	1,035	1,035
Logistics	2,000	1,843
Gas and Mileage Reimbursements	3,000	3,414

LAKE MISSAUKEE AREA FIRE AUTHORITY

LAKE CITY, MICHIGAN

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOR THE YEAR ENDED MARCH 31, 2005

	BUDGET	ACTUAL
Other Functions		
Insurance and Bonds	11,482	11,482
Employee Benefits	3,000	1,248
Capital Outlay		
Equipment	33,083	127,486
Total Expenditures	\$ 94,683	\$ 183,852
Excess of Revenues Over (Under) Expenditures	\$ 0	\$ (58,424)
<u>OTHER FINANCING SOURCES (USES)</u>		
Proceeds from Debt Issuance	\$ 0	\$ 100,000
Transfer Out		
Improvement Revolving Fund	0	(38,739)
Total Other Financing Sources (Uses)	\$ 0	\$ 61,261
Net Change in Fund Balance	\$ 0	\$ 2,837
<u>FUND BALANCE</u> - Beginning of Year	0	8,439
<u>FUND BALANCE</u> - End of Year	\$ 0	\$ 11,276

LAKE MISSAUKEE AREA FIRE AUTHORITY
LAKE CITY, MICHIGAN

IMPROVEMENT REVOLVING FUND

BALANCE SHEET
MARCH 31, 2005

ASSETS

Cash	\$ 7,333
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LIABILITIES AND FUND BALANCE

<u>LIABILITIES</u>	\$ 0
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FUND BALANCE

Unreserved

Designated for Fire Authority Improvements	7,333
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TOTAL LIABILITIES AND FUND BALANCE	\$ 7,333
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LAKE MISSAUKEE AREA FIRE AUTHORITY
LAKE CITY, MICHIGAN

IMPROVEMENT REVOLVING FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED MARCH 31, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>		
Local Sources		
Interest and Rents		
Interest Earnings	\$ 1,890	\$ 945
<u>EXPENDITURES</u>		
Public Safety		
Fire Protection		
Capital Outlay	<u>93,288</u>	<u>93,288</u>
Excess of Revenues over (under) Expenditures	\$ (91,398)	\$ (92,343)
<u>OTHER FINANCING SOURCES (USES)</u>		
Transfers In		
General Fund	<u>38,739</u>	<u>38,739</u>
Net Change in Fund Balance	\$ (52,659)	\$ (53,604)
<u>FUND BALANCE</u> - Beginning of Year	<u>60,937</u>	<u>60,937</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 8,278</u>	<u>\$ 7,333</u>

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

JOHN H. BISHOP, C.P.A.
ROBERT V. BEATTIE, C.P.A.
DOUGLAS P. McMULLEN, C.P.A.
JOHN F. TAYLOR, C.P.A.
STEVEN C. ARENDS, C.P.A.
SCOTT A. HUNTER, C.P.A.
JONATHAN E. DAMHOF, C.P.A.
MICHAEL D. COOL, C.P.A.

November 4, 2005

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Fire Board
Lake Missaukee Area Fire Authority
Missaukee County
Lake City, Michigan

As a result of our audit of the basic financial statements of Lake Missaukee Area Fire Authority for the year ended March 31, 2005, we would like to take this opportunity to comment on the following items relative to the management and accounting records and procedures of the Authority:

Condition of Accounting Records

The accounting records were again found to be in good order and well organized. We would like to congratulate the accounting personnel for doing a good job and thank them for their efforts in accumulating the information needed for the audit.

GASB 34

These financial statements are reported under the new GASB 34 accounting standard and are much different than in the past.

Some of the more significant changes required by GASB 34 are as follows:

1. Management's discussion and analysis is a new section in the financial report. This includes the administration's narrative overview of the information contained in the financial statements.
2. Several new types of financial statements are now included that reports financial information on a Fire Authority-wide basis and incorporates capital assets, a provision for depreciation on those assets as well as long-term liabilities of the Fire Authority.

Budgeting Procedures

Pertaining to the Fire Authority's compliance with Public Act 621 of 1978, the following are noted:

1. The budget document should have the actual results from the prior year.
2. The amount of fund balance accumulated from prior years and the amount expected at the end of the upcoming year, after applying the budgeted revenues and expenditures, should be included in the budget document.
3. Total disbursements in the General Fund exceeded the budget.

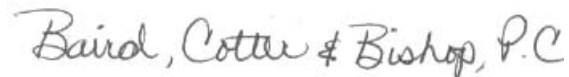
The Board should continue to monitor the budget and make amendments prior to incurring expenditures in excess of budgeted amounts.

We recommend the Fire Authority carefully review these statements under the new accounting standard. We are available to explain the various changes in detail if so desired.

We would like to thank the board for its continued confidence in our firm and to thank the Fire Authority officers for their cooperation.

If you have any questions relative to the above comments and recommendations or other areas of your annual accounting, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

A handwritten signature in cursive script that reads "Baird, Cotter & Bishop, P.C." in dark ink.

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Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

November 4, 2005

LETTER OF REPORTABLE CONDITIONS

To the Fire Board
Lake Missaukee Area Fire Authority
Missaukee County
Lake City, Michigan

In planning and performing our audit of the financial statements of Lake Missaukee Area Fire Authority, Lake City, Michigan for the year ended March 31, 2005, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements.

The relatively small number of people involved in the accounting functions of the Fire Authority make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described above is a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.